

MEXICO

ECONOMIC RESILIENCE DESPITE NAFTA UNCERTAINTY

With the future of the North American Free Trade Agreement (NAFTA) hanging in the balance and President Trump continuing to talk tough, you might imagine that Mexico's economy was suffering, that investors — especially those from the U.S. — were staying away and that Mexican businesses were retrenching. Quite the opposite is true.

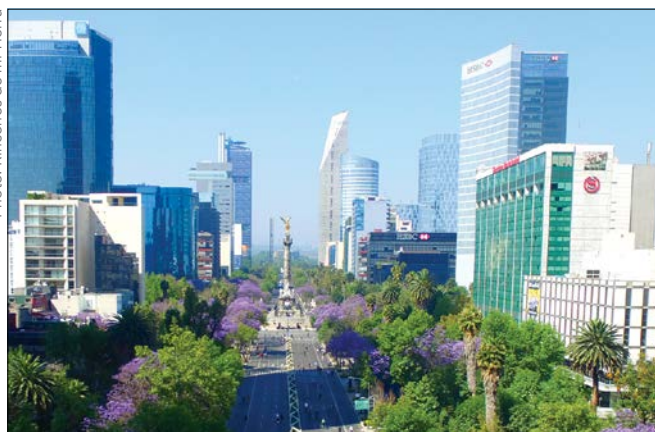
The peso is healthy and Mexico's foreign direct investment (FDI) is booming. Over the first three quarters of 2017, it received \$21.75 billion in FDI, up 10% from 2016, with 40.3% coming from new investments and 47.8% from U.S. investors. Companies in Mexico are very optimistic, whatever happens to NAFTA.

"It is true that if we cannot solve NAFTA, we'll face challenges," says Angel M. Junquera Sepúlveda, lawyer and partner at Junquera y Forcada, "but behind every problem is an opportunity, and Mexico offers a great opportunity." He predicts, "There will be a boom in the energy sector within five or six years," due to recent industry reforms that have opened it up to private investments.

William J. Waggoner, CEO of U.S.-owned Mexico Petroleum Company (MPC), agrees: "The Mexico-U.S. trade relationship is not going away and the billions of barrels of oil in Mexico are not going away either."

Waggoner has been studying Mexico's oil and gas since the 1980s, when he became aware of

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Paseo de la Reforma, Mexico City

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ANGEL M. JUNQUERA SEPÚLVEDA
LAWYER AND PARTNER, JUNQUERA Y FORCADA

the immense size of the country's onshore reserves. While waiting for these to become available to private investors, Waggoner's company worked in the U.S.'s Permian Basin, becoming efficient at finding and extracting oil cost-effectively.

In Mexico, he has taken that experience and put together a

team he describes as "a mixture of preeminent geologists and petroleum engineers from Mexico and the U.S., and Spanish-speaking drillers who were the backbone of the Permian Basin's development." MPC focuses on "the safe and efficient exploration and production of oil and gas from mature, established

onshore fields with an unconventional component — Mexico has a lot of those," Waggoner states.

In addition, the company is "evaluating other zones, because we have identified tremendous opportunities and there are huge areas for new discoveries."

MPC plans to finance its larger projects with the help of equity investors or banks, which are increasingly interested in Mexican energy. This is due to the fact that reforms in the sector were built after consultation with businesses, he thinks: "The interplay between public and private is extraordinary here. Investors look at that and go, 'Wow, with that kind of certainty, and open and active relationship, Mexico is the kind of place where I want to put my investment.'"

Growth in Mexican-U.S. Trade
Manufacturing received 43.4% of the FDI in Mexico in the first nine months of 2017 and is another booming sector seeing increasing Mexican-U.S. interaction. Arturo Merikankas, CEO of Grupo Merik Enterprises, a manufacturer and distributor of



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Promotion

items for both the automotive and residential sectors, says, "It is business as usual. In fact, we have many new projects with U.S. companies that manufacture in the U.S. but want to come to Mexico to be more competitive."

Grupo Merik Enterprises is involved in the manufacturing of metal auto parts, a sector with "great growth potential," Merikankas believes; "We have been granted many licenses to produce goods in Mexico and export them to the U.S. and elsewhere. To make the most of this, we have embarked on new ventures, such as hot forging, and are investing in renewing our processes to be more competitive."

The company is also Mexico's market leader for garage doors and door openers, which it sells to property owners. Here again, the company is confidently investing. "We were very well positioned in business-to-business, but not necessarily

with end users. So we started a brand-recognition process. We have opened about 50 sales franchises in our name and offices throughout the Americas. We plan to double our number of franchises by next year."

To further penetrate the U.S., Grupo Merik Enterprises has bought innovative Canadian door and gate-automation company Service Door Industries, which extends its range of in-demand technologies. To date, the company has grown organically, but it is now considering bringing in external investors, in order to take full advantage of the potential in its markets.

The Legal Position

While there is general optimism about the future of trade between the two countries, "it is always better to prevent problems and be prepared," states Junquera Sepúlveda. Junquera y Forcada is one of a number of Mexican law firms with U.S.

clients who are concerned about the possible ramifications of any changes to NAFTA.

"What we do is analyze their contractual conditions, see how tax increases could affect them and, in case NAFTA is dissolved, consider the relevant measures to take to prepare for the worst-case scenario," he explains.

"An eventual increase in tariffs with the U.S. will not mean the end of commercial relations between us, and we should not forget that we have the General Agreement on Tariffs and Trade to fall back on," Junquera Sepúlveda notes.

Mexico already has a wide range of international trade agreements, and he expects more will follow. This, coupled with the recent reforms in Mexico, will soon result in a huge increase in FDI, he says: "The severe structural reforms were very important and are already working — a window of opportunity is opening for Mexico."

Junquera y Forcada is a leading boutique firm that has had commercial and professional links with the U.S. for over three decades. To ensure it continues to offer its increasing number of foreign clients the best advice, it has joined more international bar associations and taken on extra staff, although it intends to remain boutique and selective.

Its lawyers have also received detailed training on the country's recent reforms, providing Junquera Sepúlveda with insight into the prime sectors for investment.

Agriculture in Mexico is receiving significant FDI, Mexican food products are increasingly visible around the world, and the predicted boom in energy is not limited to oil and gas, he states: "We are witnessing very



William J. Waggoner, CEO, Mexico Petroleum Company



Arturo Merikankas, CEO, Grupo Merik Enterprises

substantial investments in electricity and hydrogen, and in the construction sector there are big projects."

FDI is also coming in for world-class industries, as the Mexican workforce becomes increasingly skilled and specialized, he points out: "Mexico is the first country to have a university focused on the aeronautical sector, for example."

The legal system itself is a sector that has seen considerable reform. "Today we have conciliation, arbitration and other alternatives to solve conflicts. We did not have these before and it favors international investors. Everything is more agile and provides certainty," he declares.

Luis A. Cervantes Muñoz, lawyer and partner at Cervantes Sainz, confirms that Mexico's judicial and legal system "works if you want it to work — and if you know how to make it work. You just have to know how to apply or implement the law. My job is to give credibility to the Mexican legal system and to let investors know that they are protected."

One of the main differentiators of his firm of about 60 lawyers is that it specializes in both transactional and litigation services. From offices in Querétaro, Cancún and Mexico City, the Cervantes Sainz team "goes to criminal, civil and administrative courts every day," notes Cervantes Muñoz.

Another specialty is assisting investors during mergers and acquisitions, which Cervantes

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Muñiz believes will see dynamic activity in 2018, helped by a relatively new competition law, which "is modern, works and is constantly changing to adapt to reality," he states.

"Mexico has always received foreign investment with open arms and has always treated investors in a fair way. It will continue like that," Cervantes Muñiz adds, highlighting that numerous international investors have been able to take advantage of this openness in sectors as varied as financial services, banking, mining, automobiles and tourism.

No shift in policies, he says, will change the size of the opportunities in the country: "The beaches will still be here, and so will the land, the factories and the workforce."

Cervantes Sainz has a "great business mix of corporate transactional work, mergers and acquisitions, project finance, energy, litigation and so on," details Cervantes Muñiz. It also has a reputation for being focused on retaining quality control over the services it offers and, as a result, it assists many of the foreign investors coming into Mexico.

"Around 30%-40% of our clients are international, mainly from the U.S.," he says. When meeting potential clients, he is happy to tell them: "Come to me, because in this country the law exists and it works in favor of those who know how to use it."

Fernando Hegewisch D. I., lawyer and partner at Hegewisch Abogados, agrees that it is important for those looking to

do business in Mexico to seek expert advice: "Mexico can be a complex market at times, especially for new investors. It is very important to be well backed up by a law firm that can provide the right guidance — especially when it comes to litigation."

Hegewisch's father, Everardo A. Hegewisch, founded the company in 1959. It is dedicated to litigation and consultation in civil, commercial and financial matters, including national and international arbitration. It is also internationally recognized, with the Legal 500 ranking it as one of Mexico's best firms for dispute resolution.

Finance is a specialty, with Hegewisch authorized as a legal auditor of stockbroking companies, but the firm has up to ten other attorneys, who have individual specializations.

"We are a boutique law firm with a proven reputation over years of practice, with national and international clients," says Hegewisch. "I personally take care of all my clients and all cases go through my hands, which I believe is key for the success of both our clients and the firm."

Now Is the Time to Invest

Another top lawyer, José Antonio García Alcocer, founded García Alcocer Abogados over 30 years ago, and today heads a team of 15 lawyers and support staff.

Since its foundation, the firm has been boutique in nature and in recent years has focused on developing a solid arbitration practice. "We always recommend the client to negotiate first before choosing litigation," says

García Alcocer.

The firm is very well positioned to assist corporations that trade disputes between Mexico and the U.S. may affect. "We've been advising many international companies wishing to invest in Mexico who come to us looking for advice on possible

scenarios that may arise from the current economic policy of the U.S.," notes García Alcocer. In fact, many of its clients are currently foreign individuals and international companies.

As for the firm's growth strategy, García Alcocer says they it has no plans for opening new offices because "the reality is that clients are already coming to us." Indeed, so keen is he to preserve the boutique quality of the firm that "major growth is not our principal goal, preferring

instead to take on delicate cases and ensuring personal attention to our clients at all times."

As an experienced legal advisor to foreign investors, García Alcocer is adamant about Mexico's potential: "Today is probably the best time to invest in Mexico. Obviously the Trump factor and this year's elections in Mexico represent risks. But the risks are transitory, and the fact is, a solid Mexican economy will always be an attraction for foreign investments."



Angel M. Junquera Sepúlveda, Lawyer and Partner, Junquera y Forcada



Fernando Hegewisch D. I., Lawyer and Partner, Hegewisch Abogados

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